

Annual Governance Report

September 2006



# Annual governance report

**Eastbourne Borough Council**

**Audit 2005/06**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports to the Authority**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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## Purpose of this report

- 1 This annual governance report prepared by the District Auditor, summarises the results of our 2005/06 audit of Eastbourne Borough Council's financial statements. It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under International Standard of Auditing (UK and Ireland)(ISA(UK&I)) 260 - "communication of audit matters with those charged with governance". It also includes the results of the work we have undertaken in forming our conclusion on the Council's use of resources under the Audit Commission's statutory Code of Audit Practice for Local Government. The Council has designated its Annual Accounts Committee to fulfil the role of those charged with governance.
- 2 The principal purposes of the report are:
  - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Annual Accounts Committee;
  - to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
  - to provide the Annual Accounts Committee with recommendations for improvement arising from the audit process.
- 3 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies. Our audit has been conducted in accordance with the principles set out in that statement.

## Scope of the report

- 4 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
  - the Council's financial statements; and
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 5 Our risk assessment and planned response to the key audit risks was summarised in our audit and inspection plan. A summary of our responsibilities and audit approach is included in Appendix 1. The results of our inspection work, and separate grant claims certification programme, will be reported in the Relationship Manager Letter later in March 2007.

- 6 We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 2. Appendix 3 will in due course provide information about the fee charged for our audit. Additional audit fees have been incurred over that planned due to the errors identified during the audit. The exact amount still needs to be quantified. Appendix 4 sets out the requirements in respect of independence and objectivity.

## Key messages

### Financial statements

- 7 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved. In particular, we are awaiting audit evidence to respond to queries raised on sample testing of accounts payable. This issue is potentially material and if not satisfactorily cleared could result in a qualification to the audit opinion. Should any further material matters arise in concluding the outstanding work, we will write and inform the Chair of the Annual Accounts Committee. It is clear that officers will not be able to resolve the outstanding issues and prepare a revised statement of accounts for re-approval by members by the 30th September 2006. The audit opinion will therefore be delayed beyond the 30th September 2006.
- 8 Notwithstanding the outstanding work noted above, we will have to issue a qualified opinion in respect of potential errors in historic and current revenue provision set aside to repay external debt and/or certain disclosures in the Council's balance sheet, and the failure of Eastbourne Bus Company's accounts, which are included in the Council's accounts, to follow accounting standards in respect of pensions and comparable amounts. This repeats the qualified audit opinion that was issued on the 2004/05 statement of accounts.

### Use of resources

- 9 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness except in the following areas: data quality; systems of internal control and managing business risks. A draft report is attached at Appendix 5.

## Financial statements

- 10 We are required to give an opinion on whether the Council's financial statements present fairly the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended.

## Status of the audit

- 11 Our work on the financial statements is now substantially complete, although there are still some outstanding issues to be resolved. In particular, some work on accounts payable remains outstanding. This is potentially a material issue and if not satisfactorily resolved could impact on the audit opinion. Officers are currently seeking answers to these outstanding audit enquiries. Should any further matters arise in concluding the outstanding work, we will raise them with the Chair of this committee.

## Matters to be reported to the Annual Accounts Committee

- 12 We have the following matters to draw to the Annual Accounts Committee's attention.

### Expected modifications to the auditor's report

- 13 On the basis of our audit work to date and subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue a qualified audit report on the Council's statement of accounts. The opinion is qualified on grounds of limitation of audit scope because of a failure in Eastbourne Buses Limited accounts, which have been consolidated into the Council's group financial statements, to comply with the requirements of Financial Reporting Standard 17 (retirement benefits) and Financial Reporting Standard 28 (comparable amounts) and in respect of potential errors in historic and current revenue provision set aside to repay external debt and/or certain disclosures in the Council's balance sheet.
- 14 As part of our qualified audit opinion on the 2004/2005 financial statements we reported that the Council had been unable to substantiate a difference of £5.8m between the capital financing requirement and adjusted credit ceiling as at 31 March 2004. The capital financing requirement and adjusted credit ceiling are the basis on which the Council is required to determine the minimum amount to be charged to the Consolidated Revenue Account for loan repayment. In consequence we were unable to obtain sufficient appropriate evidence in respect of the General Fund balance, the Housing Revenue Account balance and various capital related balances in the Consolidated Balance Sheet.

- 15 Although we are satisfied that officers have taken all reasonable steps possible to investigate and resolve this unsubstantiated difference, the difference noted remains unresolved. Minimum Revenue Provision for 2005/2006 has again been calculated based on the lower adjusted credit ceiling value and is potentially understated. Given this, and continued weaknesses in capital accounting and financing arrangements noted in our detailed work to support the audit of the 2005/2006 financial statements, there is a similar qualification of the 2005/2006 audit opinion.
- 16 The auditor of Eastbourne Buses Limited (EBL) has qualified the opinion on EBL's 2005/2006 financial statements in respect of a failure to fully comply with the requirements of Financial Reporting Standard 17 (retirement benefits) and Financial Reporting Standard 28 (comparable amounts). This qualification is repeated in the audit opinion for the Council's group accounts.

**Uncorrected misstatements**

- 17 At the time of writing this report, we have not identified any misstatements that officers have decided not to adjust. However, please note the areas recorded in Table 2 that are still being discussed with officers.

**Adjusted misstatements**

- 18 To assist you in fulfilling your governance responsibilities, we are required to consider reporting adjusted misstatements to you where these are material. We therefore draw your attention to the list of material and significant misstatements that officers have adjusted in Table 1 below. Table 2 records misstatements that we have identified that are still being discussed with officers. A detailed report will be issued to officers setting out all the amendments required to the accounts.

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**Table 1 Adjusted Misstatements in the financial statements**

Issues	Value of misstatement
Internal recharges have been included in gross income and expenditure disclosed within net of cost services in the Consolidated Revenue Account. Internal recharges should properly be netted down to zero when the financial statements are produced.	Not fully quantified as part of this report.
Overstatement of sundry creditors and cash in the Consolidated Balance Sheet due to erroneous double posting of an entry to the creditors control account.	£110k



Issues	Value of misstatement
<p>Housing Revenue Account Appropriations suggest that £710k of revenue funds have been applied to finance capital expenditure during the period. Audit review has revealed that this is Housing Revenue Account budget earmarked to finance capital expenditure during the period that was not used and appropriated in error to the capital grants and contributions unapplied account in the Consolidated Balance Sheet.</p> <p>This amount should have been properly appropriated to an earmarked reserve in the Consolidated Balance Sheet and disclosed as such on the face of the Consolidated Revenue Account.</p>	£710k
<p>A number of errors relating to the consolidation of the financial statements of Eastbourne Buses Limited into the Council's Group Accounts.</p> <p>Some additional disclosures are also required in the Council's group accounts re the consolidation of Eastbourne Buses.</p>	Not fully quantified as part of this report.
<p>A failure to fully reflect prior period adjustments made in the Consolidated Balance Sheet in supporting notes and within the Statement of Total Movement in Reserves and supporting notes.</p>	Not fully quantified as part of this report.

- 19 A revised statement of accounts has not yet been produced to reflect these agreed amendments. Further audit work will be necessary to confirm their correct processing.
- 20 A number of the issues arising as part of the audit relate to the failure to fully reverse accruals made in the previous period. The Council should therefore seek to improve its processes to ensure that accruals are correctly and completely reversed from the general ledger in the new financial year.

#### ***Recommendation***

*R1 Seek to improve processes within Financial Services to ensure that accruals are correctly and completely reversed from the general ledger in the new financial year.*

**Table 2 Significant and material misstatements that are currently being discussed**

Issues	value of misstatement
<p>The gross amount of NNDR collectable for the period was erroneously calculated and recorded in the collection fund. This has led to the understatement of income collectable from business ratepayers and payments to the national business rate pool in the Collection Fund. The issue has also led to overstatement of NNDR debtors in the Consolidated Balance Sheet.</p>	<p>£453k</p>
<p>General Fund capital expenditure financed from a combination of external capital contributions, earmarked reserves and directly from revenue has not been correctly accounted for or disclosed in the financial statements.</p>	<p>£134k</p>
<p>As part of our detailed audit work we requested a transaction based analysis from the Council's creditor payments system to show all payments made to suppliers using the system during the period of account. The total value of payments made during the period shown by the analysis was approximately £33m. We used the analysis produced to select 52 individual transactions for detailed substantive testing.</p> <p>We have been able to substantiate, by reference to supporting invoices, that 51/52 payments made are valid. However for 1/52 payments selected</p>	<p>We are continuing to work with officers to ascertain the correct value of total payments made through the creditor payment system during the period. This will give us assurance that the relevant disclosure in the Council's Cash Flow Statement is correct.</p> <p>We are also seeking assurance that the apparent payments per the first analysis, that are not supported by supplier and invoice details, do in fact relate to the way information was extracted from the creditor payments system. It is also important that we verify that no actual payments have</p>

<p>supplier details and invoice references were not recorded on the analysis produced from the accounts payable system. An overall review of the analysis showed further entries where payments had apparently been made but supplier details and invoice references had not been recorded. Officers believe that these apparent payments have not actually occurred and may simply be caused by an error in the way transaction based information has been extracted from the creditor payments system to enable detailed testing.</p> <p>To gain further assurance on this we requested a further analysis from the creditor payments system to show how payments made have been coded on the general ledger. The further analysis produced does not contain any entries where supplier details and invoice references had not been recorded. It does also demonstrate that payments made through the system have been coded to the general ledger. However, the total value of payments made during the period per this second analysis is approximately £36m. This is approximately £3m greater than the value of payments made per the first analysis produced.</p>	<p>been made and accounted for in relation to the entries that are not supported by supplier details on the first analysis produced if they are not, in fact, genuine liabilities of the Council.</p>
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## Qualitative aspects of accounting practices and financial reporting

- 21 Our audit includes consideration of the qualitative aspects of the financial reporting process, including matters that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

- 22 The audit trail between the year end trial balance from the Council's general ledger and the financial statements is currently provided by means of an Excel spreadsheet, which includes numerous manual adjustments to the trial balance data. We also noted that year end Consolidated Revenue Account balances are cleared down directly to Consolidated Balance Sheet reserves on the general ledger as part of the Council's current arrangements to closedown the general ledger. This means that the classification of balances on the general ledger does not reflect the classification of balances in the financial statements as at financial year end, and prompts the need for manual adjustment. The general ledger is not corrected to show correctly classified balances until the new financial year.
- 23 Although we are satisfied that the financial statements have been correctly derived from the trial balance the use of a spreadsheet to produce the year end accounts is prone to error and reduces clarity on the general ledger regarding the Council's year end financial position. It also significantly increases the time required to be input by Financial Services officers to produce the statements, and the audit time required to gain assurance that the financial statements produced do correctly reflect the year end trial balance.
- 24 The quality of working papers produced to support the financial statements was variable. There were numerous instances where officers were initially unable to provide working papers to support significant balances and disclosures. The availability of officers to explain working papers, or gather support for balances and disclosures where working papers were not available, was also limited. The resolution of audit queries was often therefore a time consuming process. This has added significantly to the amount of time needed to complete the audit.

<b><i>Recommendations</i></b>
<i>R2 Create sufficient codes on the general ledger so that entries can be posted to fully support balances appearing in the financial statements. This should remove the need for significant manipulation of balances outside of the general ledger.</i>
<i>R3 Ensure that adequate supporting evidence is available to support all significant balances and disclosures within the financial statements.</i>
<i>R4 Seek to increase the level of officer availability to deal with queries arising from the audit, and support the audit process generally.</i>

**Material weaknesses in internal control identified during the audit**

- 25 Our audit identified weaknesses in the systems of internal control, specifically within the creditors, payroll, housing benefit systems; cash/bank system and controls to account for fixed assets. These are recorded below for your attention.
- 26 We have identified a number of weaknesses in control relating to the Council's creditor payments system, specifically:

- No evidenced accuracy check is undertaken by Financial Services of cheque runs made through the Council's creditor payments system. This control operated in previous periods but has lapsed during 2005/2006.
- There is a facility within the creditor payments system to use purchase orders to record committed expenditure. The use of purchase orders enables a matching control to be operated to verify the validity and accuracy of invoices received prior to payment. It also enables the Council to monitor the value of committed expenditure, which is useful for cash flow forecasting and determining accruals at year end. Although this control has been designed effectively an Internal Audit review, that we have relied upon for our work, has shown that purchase orders are only raised for approximately 25 per cent of invoices paid through the creditor payments system.
- Goods received notes should be attached to invoices as evidence of the receipt of goods prior to payment through the creditor payments system. There is also the facility to record the check of invoices to goods received notes within the creditor payments system. An Internal Audit review covering the operation of this control has shown that the control is not being fully utilised.

#### ***Recommendation***

*R5 Fully utilise controls established within the creditor payments to ensure the validity and accuracy of payments made.*

- 27 As part of our work we have relied on an Internal Audit review of the operation of controls within the Council's payroll system. Internal Audit has identified a large number of control weaknesses within the system. Many of the control weaknesses identified relate to a failure to operate authorisation controls effectively. For example, the payroll section does not currently maintain an authorised signatory list making it impossible to ensure that claims for overtime and expenses are valid prior to payment. It was also noted that there is no current establishment listing meaning that it is impossible to undertake an independent check to ensure that only valid employees have been set up on the payroll system.
- 28 Although a system of payroll control accounts is used by the Council there is no regular evidenced reconciliation of payroll system outputs to payroll cost data appearing on revenue codes within the Council's general ledger.

#### ***Recommendations***

*R6 Seek to address the control weaknesses in the payroll system identified by Internal Audit.*

*R7 Undertake an evidenced reconciliation of payroll system output to payroll cost data appearing within revenue codes on the general ledger to demonstrate that payroll costs are accurately reflected in the Council's accounts.*

- 29 As part of our work we sought to rely on sample based accuracy checks of payments of housing benefit undertaken by the housing benefits section. We were unable to rely on the operation of this control for our purposes as samples of payments to be checked were selected by benefit assessors within the housing benefits section. This gives rise to a potential conflict of interest and undermines the value of the control. We also noted that sample checks undertaken were not always evidenced within the housing benefit system.

**Recommendation**

*R8 Ensure that samples of housing benefit payments checked for accuracy are selected by officers not directly involved with the determination of awards of housing benefit. Clearly document and evidence all checks undertaken.*

- 30 From month ten of the financial year the Council operated revised processes to undertake its bank reconciliation. There were some initial difficulties in the implementation of the revised process. Although we have been able to vouch that the cash balance on the general ledger has been satisfactorily reconciled to the cash balance at the bank at the financial year end, giving us assurance within material tolerances on the accuracy of the cash and bank balance in the Consolidated Balance Sheet, work should be undertaken to further improve the process going forward. Specifically, work should be undertaken to ensure that amounts currently shown as 'miscellaneous cash' on the Council's general ledger are properly allocated to relevant detailed cash codes already established. The value of miscellaneous cash at financial year end was approximately £125m.
- 31 As part of work on the year end bank reconciliation we noted that no bank reconciliations have been undertaken in the current year at the end of month 5. Bank reconciliations should be undertaken and reviewed in an expedient manner on a monthly basis.

**Recommendations**

*R9 Continue to refine the new bank reconciliation processes. Specifically seek to ensure that amounts currently shown as miscellaneous cash are properly allocated to relevant detailed cash codes on the general ledger.*

*R10 Ensure that monthly bank reconciliations are being undertaken and reviewed in a timely manner during financial year 2006/2007.*

- 32 We have noted a number of significant weaknesses in the Council's system to record and account for fixed assets. Specifically:

- There is no single corporate record of all fixed assets held by the Council. Separate records are currently held by Financial Services, Estates and Housing Services. These records do not currently reconcile. Information provided by Estates to valuers to enable them to undertake revaluations of fixed assets cannot be easily reconciled to the records held by Financial Services, on which the financial statements are based. A complex and time consuming reconciliation exercise therefore needs to be undertaken by Financial Services to ensure that annual revaluations are correctly reflected in the financial statements.
  - Capital expenditure on assets held at market value is routinely written down, as a downward revaluation, to the Fixed Asset Restatement Account in the Consolidated Balance Sheet in the year in which it is incurred. Such expenditure should properly be capitalised in the Consolidated Balance Sheet and only be revalued at the point in time that a valuation from a professionally qualified valuer is obtained.
  - During the course of our work we noted that the Council is not consistently applying its stated accounting policies in relation to valuation and depreciation of assets in the fixed asset register maintained by Financial Services. This is used as the basis for fixed asset entries in the financial statements.
- 33** The weaknesses in the Council's systems to record and account for fixed assets have contributed to the proposed qualified opinion on the Council's financial statements.

<b><i>Recommendations</i></b>
<i>R11 Establish a single corporate fixed asset register to be used as the basis for fixed asset entries in the financial statements.</i>
<i>R12 Ensure that expenditure is capitalised on the fixed asset register and general ledger in the year in which it is incurred. Revaluation of fixed assets on the general ledger should only take place when supported by a valuation from a professionally qualified valuer.</i>
<i>R13 Apply the Council's stated accounting policies fully and consistently to all categories of assets on the fixed asset register.</i>

- 34** As part of our work we are required to review the Council's statement of internal control (SIC) to assess its level of compliance with the requirements of proper practice as specified by CIPFA, and consistency with other information from the audit of the financial statements. Although we are satisfied that the SIC complies with proper practice it does not at present explicitly reflect the more significant control weaknesses detected as part of our audit work and set out in this report.
- 35** Weaknesses in the internal control environment at the Council have meant that we have had to take a largely substantive approach to gaining audit assurance. This has added significantly to the amount of time needed to complete the audit.



***Recommendations***

*R14 Add to the 2005/2006 statement of internal control so that it reflects weaknesses in the control environment detected as part of work to support the audit of the financial statements.*

- 36** We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.



## Matters specifically required by other auditing standards

- 37 Other auditing standards require us to communicate with you in other specific circumstances including:
- where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 38 Although we have no evidence that fraud or loss has occurred during the period the internal control weaknesses detailed in this report create a greater risk of significant fraud occurring and not being prevented or detected.

## Any other matters of governance interest

- 39 Finally, we are required to report any other matters that we believe to be of governance interest. There are two other matters which we wish to draw to your attention.
- 40 The Council has an eighty per cent investment in the share capital of Eastbourne Buses Limited (EBL) together with a hundred per cent investment in the debenture issued by EBL. Given the poor current financial performance of EBL, and its current level of indebtedness, it is unlikely that EBL will continue as a going concern without restructuring of its existing debt or receipt of other external financial support. It is therefore questionable whether the Council's investment in the company will be fully realisable.
- 41 As part of our audit we undertook detailed work to vouch the accuracy of the Council's 2005/2006 council tax base. It was not possible for us to verify all detailed calculations underpinning the council tax base as some key electronic working papers and supporting evidence had been destroyed after a relatively senior revenues section officer left the employment of the Council. This made it significantly more difficult for Council officers to prove accurate calculation of the council tax base.

### **Recommendations**

*R15 Ensure that evidence and working papers are retained to support material balances and disclosures where preparing officers leave the employment of the Council.*

## Letter of representation

- 42 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the required letter of representation is included at Appendix 6.

## Next steps

- 43 We are drawing these matters to the Annual Accounts Committee's attention so that:
- you can consider them before the financial statements are approved and certified;
  - the representation letter can be signed on behalf of the Authority and those charged with governance before we issue our opinion on the financial statements; and
  - the Committee has the opportunity to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above. Should you choose not to amend the financial statements, in accordance with the ISA (UK and Ireland) 260, we request that you extend the representation letter to explain why you are not adjusting the financial statements. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates, either in the body of the letter or in a document appended to it.

## Use of resources

### Value for money conclusion

- 44 The Code requires us to issue a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources (the value for money conclusion). In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements.
- 45 We have considered the Council's arrangements to: set its strategic objectives; consult with stakeholders; ensure the quality of its data; manage service performance; manage its finances; ensure its financial standing; accurately report its financial performance; establish a system of internal control; and secure value for money. Earlier in the year, we reported our conclusions on the last five areas as part of the 'use of resources' assessment.
- 46 On the basis of our audit work, we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of its resources except in respect of meeting the following criteria:
- putting in place arrangements to monitor the quality of its published performance indicators and report the results to members;
  - putting in place arrangements to maintain a sound system of internal control;
  - putting in place arrangements to manage its significant business risks.
- 47 The key findings from our work on the use of resources criteria are summarised below.

### Data quality

- 48 The Council has not demonstrated top level commitment to data quality and responsibilities for data quality are not explicit. There are no references to the importance of data quality in key documents such as the Performance Plan. There has been a lack of systematic internal review across all systems. Review of data quality has focussed on high risk indicators but the results of these reviews have not been documented, therefore members and officers may be unaware of deficiencies in past and present data. The Risk Management Strategy acknowledges risks that relate to the loss or inaccuracy of data, systems or reported information but it is unclear how the Council is managing these risks.

## **Internal control**

- 49 Currently procedure notes and manuals are not in place for all business critical systems at the Council. The need to address gaps in current systems procedure documentation was identified as part of the 2004/2005 statement of internal control improvement plan. This action remained outstanding as at 31 March 2006.

## **Risk management**

- 50 The Council adopted a risk management strategy and policy statement during 2003 but it has yet to put many of the detailed requirements into practice. Key service level risks are routinely identified and documented as part of the service and financial planning process but there are currently no arrangements to identify, consider and prioritise consistent risks at the corporate level. Such risks should be recorded in a corporate risk register. The Council does not currently fully understand the likely impact of consistent service level risks on the achievement of its corporate priorities. Officers plan to introduce a corporate risk register during 2006.

## Use of auditors' statutory powers

- 51 Auditors are required to consider the exercise of certain statutory powers during the course of the audit, as summarised in Table 5 below.

**Table 3 Use of statutory powers**

Insert text

Issue	Auditor responsibility	Impact
Section 8 reports	Section 8 of the Act requires that auditors should consider whether, in the public interest, they should report on any matter that comes to their attention in the course of the audit so that it may be considered by the body concerned or brought to the attention of the public.	There have been no section 8 reports in respect of the financial year 2005/2006.
Section 11 recommendations	To consider whether a written recommendation should be made to the audited body requiring it to be considered and responded to publicly.	There have been no s11 recommendations.
Best value	To consider whether to recommend that the Audit Commission should carry out a best value inspection of the Council under section 10 of the Local Government Act 1999 and/or that the Secretary of State should give a direction under section 15 of that Act.	Our work in respect of the Council's 2005/2006 Best Value Performance Plan (BVPP) was reported in the 2005 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Closing remarks

- 52 This report has been discussed and agreed with the Director of Financial Services and the Assistant Director of Financial Management...
- 53 The report makes a number of recommendations. An action plan is included at Appendix 7, which includes responses from management and indicative target dates for the implementation of recommendations.
- 54 The Council has taken a positive and constructive approach to our audit. In particular I would like to recognise the contribution that the Council's Internal Audit section has made to the overall audit process. I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

**Darren Wells**  
**District Auditor**

September 2006

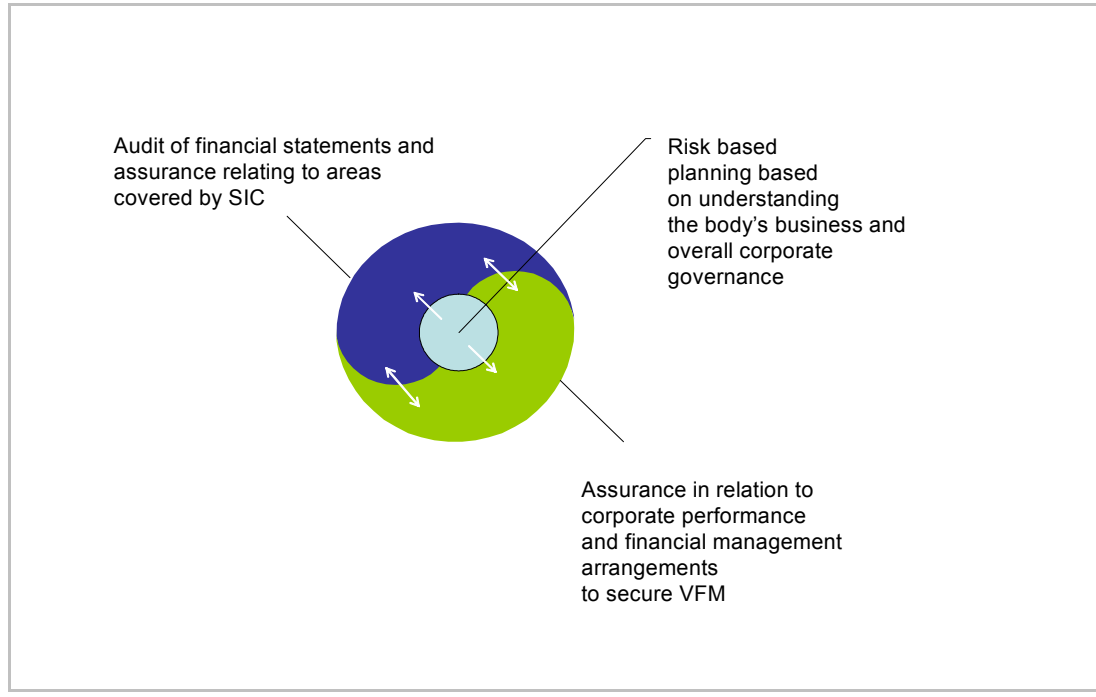
# Appendix 1 – Audit responsibilities and approach

## Audit objectives

- 1 Our objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



## Approach to the audit of the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Council which had most impact on our opinion. These included:
  - the standard of the overall control environment and internal controls;
  - reliance on internal audit;
  - the likelihood of material misstatement occurring from of material information systems; or a material error failing to be detected by internal controls;
  - any changes in financial reporting requirements; and
  - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements.
- 4 In addition, as the Council prepares group financial statements in respect of its controlling interest in Eastbourne Buses Limited, we have also considered whether it is necessary to communicate to you such matters brought to the attention of those charged with governance of each body within the group by its auditors. Only those matters which we judge to be of significance in the context of the group are brought to your attention.

## Approach to audit of arrangements to secure value for money

- 5 The scope of these arrangements is defined in paragraph 20 of the Code as comprising:
  - corporate performance management; and
  - financial management arrangements.
- 6 Our conclusion is informed and limited by reference to relevant criteria covering specific aspects of audited bodies' arrangements, specified by the Code.



- 7 In planning audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.
- 8 The potential sources of assurance when reaching the value for money conclusion include:
  - the Council's whole system of internal control as reported in its statement on internal control;
  - results from statutory inspections or the work of other regulators, for example, corporate assessments, service assessments (whether by the Commission or other regulators), etc.;
  - work specified by the Audit Commission, for example, the use of resources assessments, and data quality work;
  - links to the financial statements' audit, including review of internal audit, the SIC and budgetary control arrangements; and
  - other work necessary to discharge our responsibilities.

## Appendix 2 – Audit reports issued

**Table 4**

<b>Planned output</b>	<b>Planned date of issue</b>	<b>Actual date of issue</b>	<b>Addressee</b>
Audit and inspection plan	insert		Audit Committee
Annual governance report	25 September 2006		Audit Committee
Opinion on financial statements	30 September 2006		The Authority
Value for money conclusion	30 September 2006		The Authority
Use of resources assessments	January 2006	January 2006	Management
BVPP report	December 2005	December 2005	The Authority

## Appendix 3 – Fee information

**Table 5**

<b>Fee estimate</b>	<b>Plan 2005/06</b>	<b>Actual 2005/06</b>
Audit		
Accounts*		
Use of resources*		
Total audit fees**		
Voluntary improvement work*		

\* Report reasons for any significant variances

\*\* The outturn on inspection and grant certification fees will be reported in the Relationship Manager Letter

## **Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity**

- 1 We are required by the standard to communicate following matters to the Audit Committee:
  - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

## Appendix 5 – Independent auditor’s report to Eastbourne Borough Council

### *OPINION ON FINANCIAL STATEMENTS OUTSTANDING PENDING COMPLETION OF OUTSTANDING AUDIT WORK*

#### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

##### **Authority’s Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

##### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## **Qualified Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Eastbourne Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except in respect of meeting the following criteria:

- putting in place arrangements to monitor the quality of its published performance indicators and report the results to members;
- putting in place arrangements to maintain a sound system of internal control;
- putting in place arrangements to manage its significant business risks.

## **Best Value Performance Plan**

I issued my statutory report on the audit of the Authority’s best value performance plan for the financial year 2005/06 on 15 December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells, District Auditor and Relationship Manager  
Audit Commission, 16 South Park, Sevenoaks, Kent TN13 1AN  
September 2006

## Appendix 6 – Letter of representation

To: Darren Wells  
The Audit Commission  
1st Floor Rear  
16 South Park  
Sevenoaks  
Kent  
TN13 1AN

### **Eastbourne Borough Council - Audit for the year ended 31st March 2006**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Eastbourne Borough Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

#### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

#### **Short Term Investments**

I confirm that the Council held no amounts on deposit as short term investments as at 31 March 2006.

#### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

## **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and,
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements;
- no financial guarantees have been given to third parties.

## **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

## **Post balance sheet events**

Since the date of approval of the financial statements by the Annual Accounts Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.



Signed on behalf of Eastbourne Borough Council

Signed

Lesley Lane

Position

Assistant Director of Financial Management

Date

## Appendix 7 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R1 Seek to improve processes within Financial Services to ensure that accruals are correctly and completely reversed from the general ledger in the new financial year.	3				
12	R2 Create sufficient codes on the general ledger so that entries can be posted to fully support balances appearing in the financial statements. This should remove the need for significant manipulation of balances outside of the general ledger.	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R3 Ensure that adequate supporting evidence is available to support all significant balances and disclosures within the financial statements.	3				
12	R4 Seek to increase the level of officer availability to deal with queries arising from the audit, and support the audit process generally.	3				
13	R5 Fully utilise controls established within the creditor payments to ensure the validity and accuracy of payments made.	3				
13	R6 Seek to address the control weaknesses in the creditor payments system	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	identified by Internal Audit.					
13	R7 Undertake an evidenced reconciliation of payroll system output to payroll cost data appearing within revenue codes on the general ledger to demonstrate that payroll costs are accurately reflected in the Council's accounts.	3				
14	R8 Ensure that samples of housing benefit payments to be checked for accuracy are selected by officers not directly involved with the determination of awards of housing	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	benefit. Clearly document and evidence all checks undertaken.					
14	R9 Continue to refine the new bank reconciliation processes. Specifically seek to ensure that amounts currently shown as miscellaneous cash are properly allocated to relevant detailed cash codes on the general ledger.	3				
14	R10 Ensure that monthly bank reconciliations are being undertaken and reviewed in a timely manner during financial year 2006/2007.	3				
15	R11 Establish a single	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	corporate fixed asset register to be used as the basis for fixed asset entries in the financial statements					
15	R12 Ensure that expenditure is capitalised on the fixed asset register and general ledger in the year in which it is incurred. Revaluation of fixed assets on the general ledger should only take place when supported by a valuation from a professionally qualified valuer.	3				
15	R13 Apply the Council's stated accounting policies fully and consistently to all categories of	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	assets on the fixed asset register.					
16	R14 Add to the 2005/2006 statement of internal control so that it reflects weaknesses in the control environment detected as part of work to support the audit of the financial statements.	3			Per Assistant Director of Finance the following wording will be added to the SIC at point 5: "In addition the Council is aware of control weaknesses identified within significant financial systems including payroll, sundry creditors and housing benefits by its internal audit team. The Council's plans to address and rectify all of these weaknesses are included in the Improvement Plan set out below"	
17	R15 Ensure that evidence and working papers are retained to support material balances and disclosures where preparing officers leave the employment of the council.	3				